

Review of the Federal Crop Insurance Program

Testimony of
Steve Baccus
President
Kansas Farm Bureau

Before the

Subcommittee on General Farm Commodities and Risk
Management

of the

Committee on Agriculture
U.S. House of Representatives

April 26, 2006

Chairman Moran and Members of the Committee, my name is Steve Baccus and I serve as the President of Kansas Farm Bureau. Thank you for the opportunity to appear before you today to share our concerns regarding crop insurance. Kansas Farm Bureau, the state's largest general farm organization, represents nearly 40,000 farm and ranch families through our 105 county Farm Bureau Associations.

I am a fourth-generation farmer in Minneapolis, KS where we produce wheat, milo, soybeans, sunflowers and irrigated corn on a 100% no-till farm. I understand all too well the problems associated with the current crop insurance program.

Agriculture is a highly erratic industry that is impacted by a multitude of variables that are far beyond the producer's control. Farmers can use top quality seed, fertilizer, chemicals and the best management practices, and still not be able to control the weather or the markets. Profit margins in this industry are such that it is critical that farmers have access to a menu of strong, viable and flexible risk

management tools. The alternate safety net for American agriculture is a continuation of ad hoc disaster assistance.

Farm Bureau encourages the development of new crop insurance and risk management products, efforts to refine existing risk management tools, and continued producer education of risk management alternatives.

Kansas Farm Bureau has been a leader in this effort through the creation of Agriculture Solutions, a wholly-owned Kansas Farm Bureau company that is dedicated to developing innovative risk management products designed to protect the revenue stream of producers.

We currently have three such products in use out in the country; Beef Verification Solutions, an Animal ID program, Revenue Protection Solutions, a risk management program that can lock in a net profit even during a drought, and Delivery Protection Solutions, which protects producers when they want to forward contract their crop.

We support providing all producers with options for various risk management products that accurately reflect individual risk considerations when making production decisions.

Without price competition, crop insurance has become ineffective, inefficient and unresponsive. The cost of crop insurance in Kansas has risen so much, primarily due to six years of drought, that it limits the number of producers who can participate at the level necessary to provide them the protection that is required to continue their operations. In my own operation I often cannot financially justify the cost of buying up additional coverage to adequately manage my risks.

The coverage levels that are offered by Federal crop insurance do not reflect what farmers need or can afford. Though limits vary by state and crop, farmers can generally insure their crops for up to 85% of their actual production history.

Though premium discounts make this level of coverage more affordable, 85% coverage still costs more than the vast majority of producers can afford. As unaffordable as it is, even the 85% coverage level can be insufficient when a crop is destroyed by natural events.

When you combine a farmer's substantial production input costs, the high premium rates for higher coverage levels, include the current government-subsidized premium, and the historical tight profit margins even with a 100% crop, and the end result continues to be a net loss for the producer.

Ironically, the most costly and frustrating loss for the producer is not when a crop has been totally destroyed. It's when there is a loss in the 20 - 50% range. The producer receives minimal return from the crop insurance coverage, and still has

the harvest expense, yet is only harvesting a crop that is approximately one-half its value.

Beyond all this, the structure of the crop insurance program is rigid and cumbersome. It allows for no tolerance and no exceptions for mistakes; and if you do, you're left with no insurance.

The crop insurance application, acres and yield reporting, and claims processes need to be simplified and made much more efficient. In addition, newly imposed privacy restrictions have made it nearly impossible for the insurance agent or adjuster to communicate with the FSA office, and recent administrative rulings by the RMA have made it illegal for MY agent, the guy I bought the policy from, the guy who is servicing my account and looking after my interests, to communicate with the adjuster who is handling my claim. Private business **would not, could** not operate in this manner.

If crop insurers are allowed to compete on both price and service like private businesses, I believe market competition will make this program better for both the American farmer and the American taxpayer.

Foster competition and innovation in the market place

The current crop insurance program would benefit from increased and open price competition in the marketplace. Competition would drive a reduction in premium costs as the market dictates that insurance providers offer better products at lower rates, passing the cost savings on to the consumer instead of absorbing it along the way.

Moreover, increased competition would create incentives for individual insurance providers to create risk management products that would be responsive to their clients' needs. This would, in turn, create an environment in which insurance providers would be compelled to increase efficiencies in order to meet the demand of the consumer and reach their own desired revenue levels.

The creation of these market-sensitive risk management tools would assist farmers with their revenue protection needs. This would allow many farmers to access and purchase increased risk management protection, thus reducing the need for ad hoc disaster assistance programs.

Privatization of crop insurance also needs to be examined. We need to at least encourage consideration of the voucher plan proposed by Senator Lugar. Farmers can utilize vouchers to purchase whatever risk management tool best meets their individual needs from whichever company is offering the best price and service. Sounds a little like capitalism doesn't it?

In addition to serving as President of the Kansas Farm Bureau, I also serve as Chairman of the Board of Farm Bureau Mutual Insurance Company. From that position I can give one prominent example of how the industry is already beginning to shift toward these new risk management tools: the Premium Reduction Plan, more commonly known as PRP.

Crop1 Insurance, a wholly-owned subsidiary of Farm Bureau Mutual, has been writing these policies since 2003. In that time, Crop1 has gone from zero premium to \$75 million in written premium. If that's not testimony to the desire of the American farmer to utilize an improved risk management product, I'm not sure what is.

Since 2003, Crop1 has helped its customers save \$4 million in premium. Much of that savings was not pocketed but was used by farmers to buy up increased coverage.

Moreover, Crop1 has a client retention rate of 94%. Retention increases to 95% among clients who have filed a claim, indicative of outstanding claims service! Both datapoints are well above industry averages and further demonstrate the high caliber of service delivered to customers using the PRP product.

The PRP discount premium program is crucial to tens of thousands of farmers. It provides farmers with the much-needed savings at a time of rising fuel, fertilizer and other costs. It is essential that Congress work to maintain the viability of this discount program that benefits so many farmers. We urge you to maintain this program.

Increased competition in the crop insurance industry

We desperately need to begin looking at ways to increase competition on both price and service within the crop insurance industry. In addition to PRP, the RMA could allow each company to adjust the premium rates established by the RMA by a certain percentage, depending on market needs and industry or company efficiencies. This would not be a refund as is the case with PRP but an actual reduction in the premium rate at the time the policy is written. Again, capitalism at its best.

It is essential to a strong, vital crop insurance industry that companies are allowed to operate like a free enterprise system and to compete on price as well as service.

To further reduce premium costs, we could allow companies to add -- but not take away -- underwriting rules. With this concept, a producer who takes certain actions to reduce his chances for a loss, such as planting a particular drought

resistant variety of a crop and uses best management practices, as defined by the added underwriting rules, would become eligible for a discount.

Finally, to help counteract fraud and abuse and to reward honesty, let's return to the days of experience rating where the farmer with the lower loss ratio gets the better rate and vice versa.

Thank you, once again, for the opportunity to speak before you today. I realize there is no easy solution to this increasingly complex problem. I do, however, ask that you carefully consider the problems associated with the current program that will be discussed today, and help us bring new competition to an industry that has become inefficient, ineffective and unresponsive to the needs of its clientele. Thank you. I stand ready to address any questions you may have.

Steve Baccus
President
Kansas Farm Bureau

Steve Baccus, Minneapolis, Kansas, was elected as President of Kansas Farm Bureau by the Board of Directors in April 2002 and re-elected in November 2004 by the voting delegates at the KFB Annual Meeting.

Baccus was born and raised on a Kansas grain and livestock farm. A fourth generation farmer, he is currently president of Baccus Farms, Inc. The family farm in Ottawa County, a KFB Century Farm, produces wheat, milo, soybeans, sunflower and irrigated corn.

Baccus began his Farm Bureau leadership role as president of Ottawa County Farm Bureau. He was the 1992 KFB District Leader of the Year and in 1996 Baccus and his family received the District Farm Family of the Year award. He is a past member of the KFB Natural and Environmental Resources Committee and a past member of the American Farm Bureau Federation (AFBF) Wheat Advisory and Grain Quality Advisory committees. Baccus was elected vice president of Kansas Farm Bureau in 1997.

In January 2004, Baccus was elected to a two-year term on the Board of Directors of the American Farm Bureau Federation, where he works to set policy and direction for the leading agriculture advocacy organization in the nation.

In addition to belonging to many Kansas commodity groups, Baccus is also a member of the Minneapolis Area Wide Chamber of Commerce, First United Methodist Church and the National Federation of Independent Businesses.

Baccus earned a bachelor's of psychology degree from Washburn University in Topeka, Kansas and a master's of psychology degree from Chapman College in Orange, Calif. He serves on the board of Trustees for Kansas Wesleyan University, is a veteran of the United States Air Force and a graduate of Class I, Kansas Agricultural Rural Leadership program. (KARL)

Steve and his wife, Patricia, have four children: Michelle, Stephanie, Kenny and Kimberly, and one grandson.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Steve Baccus

Address: 2627 KFB Plaza, Manhattan, Kansas 66503

Telephone: 785-587-6600

Organization you represent (if any): Kansas Farm Bureau

Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: None _____ Amount: _____

Source: _____ Amount: _____

1. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source: SEE BELOW _____ Amount: _____

Source: _____ Amount: _____

Please check here if this form is NOT applicable to you: _____



Signature: _____

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In

the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

If you are appearing on behalf of an organization, please list any federal grants or contracts (including sub grants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract.

Source: Kansas Farm Bureau

Amount: None

Source: Farm Bureau Mutual Insurance Company

Amount: \$17,970,607

Administrative and Operating subsidies received on the MPCPI and Livestock Products since 10/1/04:

2005 Crop Year

MCPI	\$14,113,227
Livestock	\$ 245,846

2006 Crop Year

MCPI	\$3,479,382
Livestock	\$ 132,152